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Report of the Secretary-General

Summary

The green shoots of the recovery in global trade that began in 2017 have continued in 2018, with trade growth outpacing the growth of global gross domestic product once again. While this would normally lead to an optimistic outlook, the integrity of the multilateral trading system is under threat, and with it, the prospects for sustained global trade growth and the achievement of a comprehensive development agenda. The latest trade statistics are described in the present report, as well as the ways in which a revitalized and resilient multilateral trading system will allow trade to fulfil its role as an enabler for the realization of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals.

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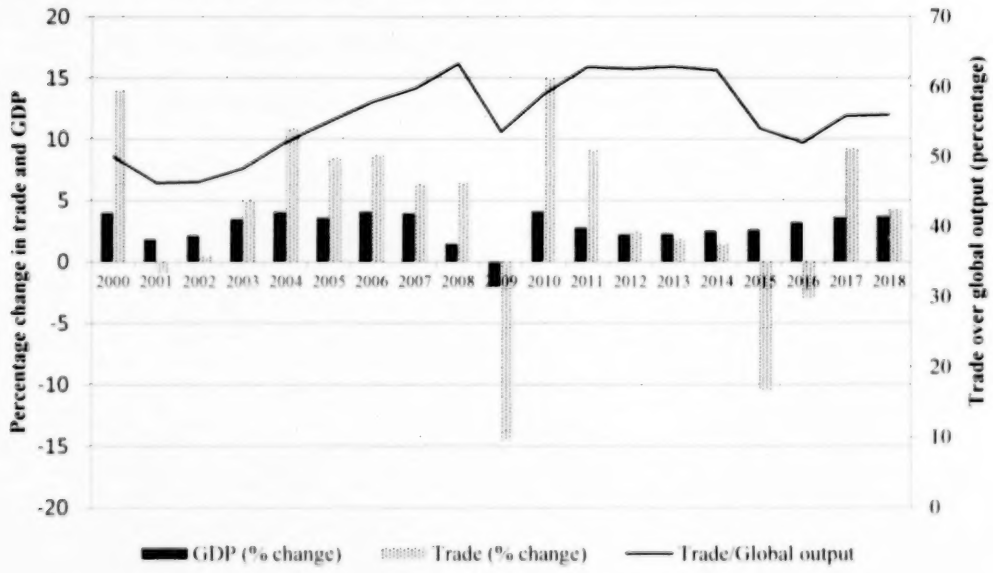
I. Trends in trade

1. In 2017, after two years of decline, global trade finally rebounded. It grew by 9 per cent compared with the previous year, reaching a value close to $23 trillion. Despite the increase, international trade remained about $1.2 trillion below its peak, attained in 2014. According to forecasts from the World Trade Organization (WTO) and the Department of Economic and Social Affairs, trade is expected to grow by about 4.5 per cent in 2018, in line with global output.

2. Notwithstanding the recovery, it is worth noting that there has been a change in international trade dynamics. The steady increase in international trade that characterized most of the 1990s and 2000s has been replaced by a more erratic pattern and generalized fragility. After the strong recovery from the financial crisis of 2008, trade grew at a sluggish pace and then plunged by 12 per cent in 2015 and by 3 per cent in 2016. Two consecutive years of decline in the value of international trade had not been recorded since the early 1980s.

3. The performance of international trade during the past five years has been at odds not only with the previous trend, but also with the overall economic environment. While international trade growth outperformed economic growth during most of the past three decades, in 2015 and 2016 global output increased while the value of international trade decreased.[1] These dynamics are captured by one of the most commonly used indices to gauge globalization trends — the ratio of the value of world trade over global output (see figure I). This index stalled at about 62 per cent between 2011 and 2014 and then fell during 2015 and 2016 — two years that are often referred to as a de-globalization period. The index picked up in 2017, but remains below its peak.

Figure I
Economic and international trade growth: 2000–2018



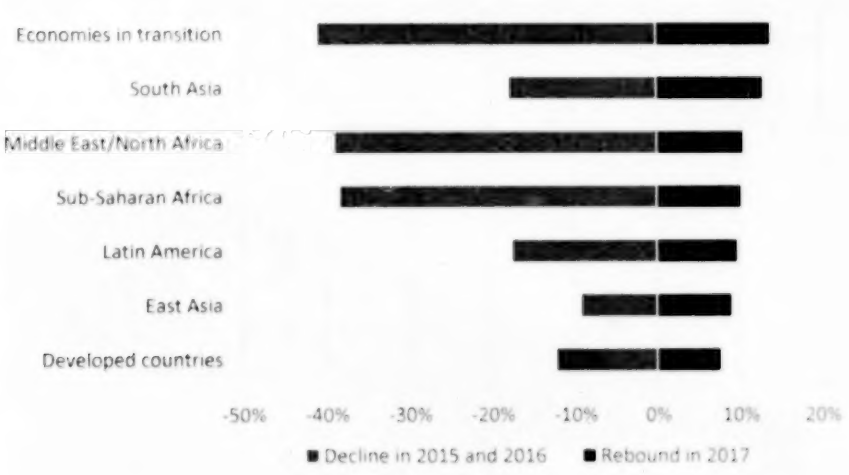
Source: Calculations of the United Nations Conference on Trade and Development (UNCTAD) secretariat are based on data from UNCTADstat.
Note: Data for 2018 are projections.

[1] A decrease in the value of trade during a period of economic expansion has not been recorded since 2001, although the decline in international trade at that time was marginal (not even 1 per cent).

4. The magnitude of the decline in the trade of goods and services observed in 2015 and 2016 reflected not only cyclical factors, such as lower investments and commodity prices, but also a change in the international integration process. Many economies began focusing on a more national development path as a result of the ongoing decline in the vertical specialization process across countries. Indeed, the reliance of the manufacturing sector on imported inputs (measured by the share of intermediate imports over the exports of manufacturing goods) has declined in many countries during the past decade.[2]

5. The trade downturn of 2015 and 2016 was broad-based and geographically widespread. Developing countries were hit hard by the collapse in trade — in most cases, harder than developed countries (see figure II).

Figure II
Export slumps and rebounds
(Percentage)



Source: UNCTAD secretariat, based on data from UNCTADstat.
Note: Growth rates refer to the 2014 baseline.

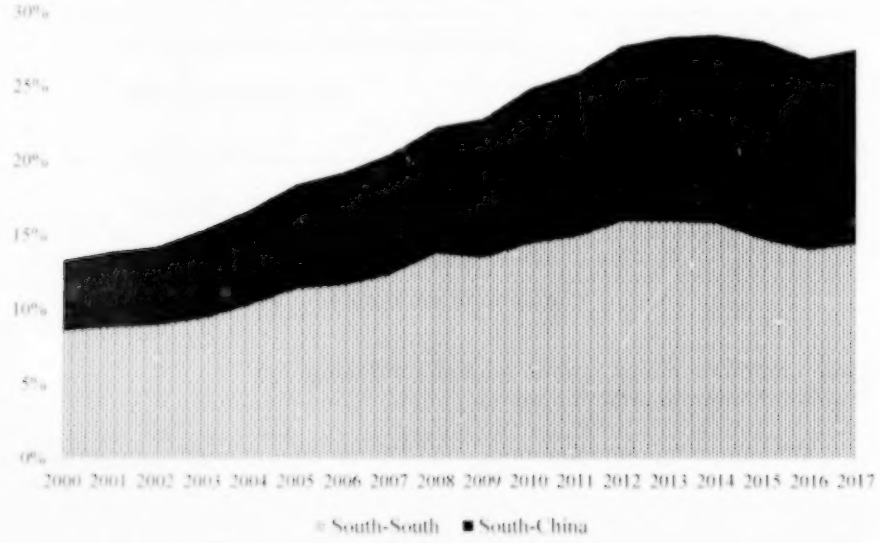
6. Although trade rebounded strongly in 2017, the value of merchandise exports in 2017 remained well below that reached in 2014 for most countries. East Asia represents the only region for which exports returned to levels comparable to those seen in 2014, largely because of more limited declines in 2015 and 2016. This resilience is not surprising, as East Asian manufacturing exporters are in general more diversified and competitive in international markets, which allowed them to better weather the unfavourable economic environment. Looking beyond regional averages, most countries experienced rebounds in 2017 but with different magnitudes. Among the major economies, merchandise exports rebounded by about 9 per cent in the European Union, 8 per cent in China and 6.5 per cent in the United States of America. Emerging Asian economies fared well in general, with exports in the Republic of Korea growing by about 16 per cent and in India by 13 per cent. Wider differences in the magnitude of rebounds are observed in Africa, owing primarily to less diversified export structures. Among major African economies, exports in South Africa grew by about 18.5 per cent, in Nigeria by about 15.5 per cent and in Ethiopia by about 8.5 per

[2] In the case of China, for example, the rate of intermediate inputs over exports fell from almost 50 per cent in 2007 to about 30 per cent in 2017 (UN Comtrade).

cent. On the other hand, exports in Egypt and Kenya grew by only 1 per cent. Exports also rebounded strongly in most Latin American countries. Exports in Brazil grew by 17.5 per cent, in Chile by 12.5 per cent and in Mexico by 9.5 per cent. An exception among the broad-based rebound in Latin American countries was Argentina, whose exports grew by only 1 per cent. The heterogeneity in recoveries across nations highlights the need for the nuanced and varied policy approaches required to achieve Sustainable Development Goal target 17.11, as well as the fragility of gains made in this context.

7. In the past few years, the dynamics of South-South trade have also changed. As of 2017, trade between developing countries accounted for about 27 per cent of global trade. While South-South trade fuelled a large part of the trade expansion during the 2000s (see figure III), its role as engine of global trade growth has diminished during the past five years. Of note is that about half of South-South trade involves China. Excluding trade between China and other developing countries, South-South trade represents about 13 per cent of world trade. South-South trade was more affected by the trade downturn of 2015 and 2016 as well as by the rebound of 2017. This could have important implications for the ability of countries to harness trade to achieve the Sustainable Development Goals.

Figure III
South-South trade (as percentage of global trade)



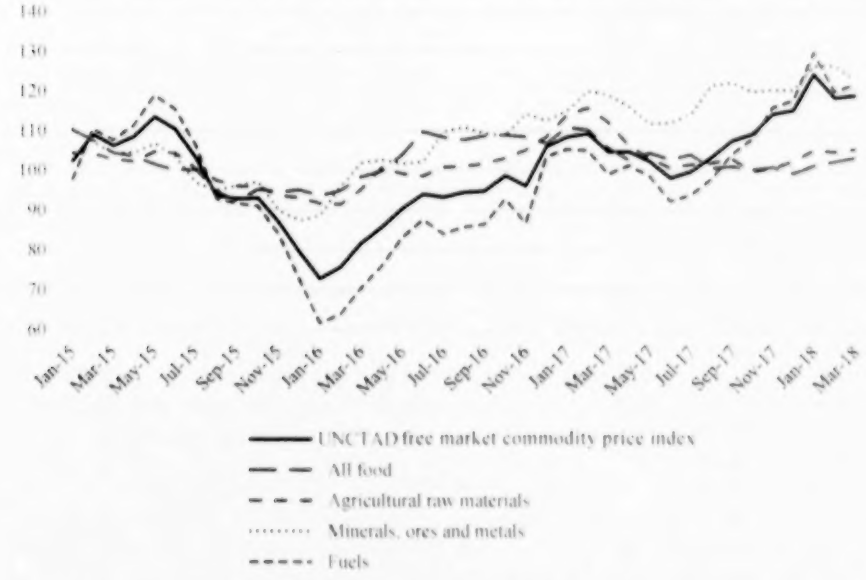
Source: UNCTAD secretariat, based on data from UN Comtrade.

A. Commodities trading is critical for most developing countries

8. Commodity prices have played a substantial role both in the collapse of international trade and in its recovery. Given that almost two thirds of developing countries are commodity-dependent, with the proportion being about 80 per cent among least developed countries, commodities prices remain hugely influential on the export earnings of many countries. Ultimately, price movements affect the ability of developing nations to address their socioeconomic development needs and fulfil the Sustainable Development Goals. In this regard, while commodity prices increased across the board in 2016, the trends in 2017 were more varied (see figure IV). Overall commodity prices kept increasing, as measured by the United Nations Conference on

Trade and Development (UNCTAD) free market commodity price index, which rose by about 8.5 per cent in 2017. However, the increase in this composite index was driven mainly by fuels (up 13.5 per cent in 2017), which reached a two-year high triggered by supply cuts agreed upon by major producers of the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers. The price index of minerals, ores and metals also increased (7 per cent in 2017), fuelled by strong demand and concerns over the limited supply of some base metals, particularly those used in the construction of electric vehicles. On the other hand, general increases in the prices of food and agricultural raw materials that had started in 2016 were reversed in 2017, a year that saw a near-record level of agricultural production. In 2017, the food price index fell by about 7 per cent and the agricultural raw materials price index fell by about 6 per cent. Preliminary statistics for the first three months of 2018 suggest a reversal in the trends of 2017, with a downward trend in the prices of fuels and metals and an upward trend in agri-food prices. However, the most recent projections (not shown in figure IV) show a possible substantial price recovery for metals and fuels. At this stage, it is difficult to determine to what extent this price recovery will be maintained. Current trade rhetoric is expected to affect grains markets, for example, with a possible impact on food supplies and production. Given that most net food-importing countries are developing countries, they are expected to be more affected by policy shocks to international grains markets.

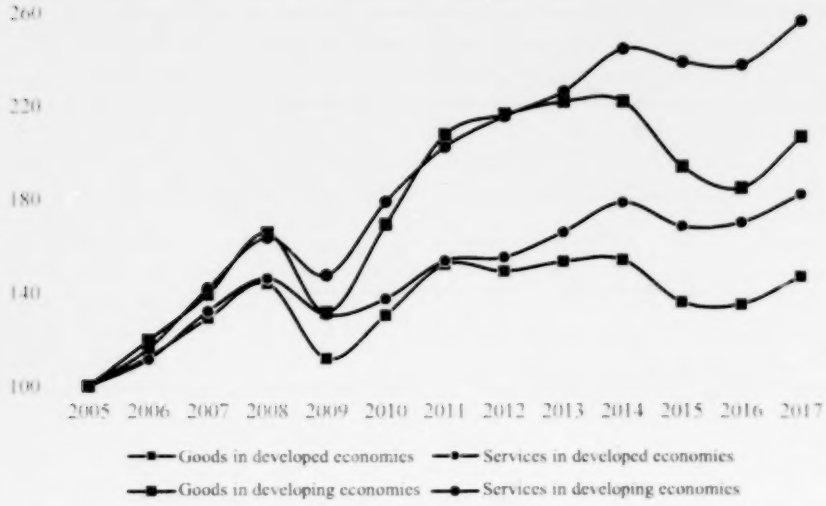
Figure IV
UNCTAD commodity price indices (January 2015 to March 2018) *(2015 = 100)*



Source: UNCTAD secretariat, based on data from UNCTADstat.

B. Trade in services: an area of opportunity for developing countries

Figure V
Exports of services and goods, 2005–2017 (*2005 = 100*)



Source: UNCTAD secretariat, based on data from UNCTADstat.

9. Although trade in services is still dominated by developed countries, developing countries have been catching up. As shown in figure V, over the past decade exports of services have grown more than exports of goods, and have grown more in developing countries than in developed countries. Exports of services have also been more resilient than exports of goods, as shown by the much lower declines in the services exports, both in the 2009 global economic and financial crisis and in the 2015 trade downturn.[3]

10. The developing economies' share in global exports of services increased from 23 per cent in 2005 to 30 per cent in 2017. Among developing regions, Asia registered the fastest growth in exports of services between 2005 and 2017, and Africa the slowest. Despite the focus on transport and travel in the export profiles of developing economies, between 2005 and 2017, telecommunications, computer and information services, financial services and other business services ranked among the fastest-growing categories of services exported from developing economies. These services experienced annual growth rates of 12 per cent, 11 per cent and 9 per cent, respectively. Although for least developed countries, exports of services remain very low relative to global exports of services, about 0.7 per cent in 2017, they are rapidly increasing, accounting for 19 per cent of the total exports from least developed countries. This underscores the potential role of exports of services in achieving Sustainable Development Goal target 17.11.

11. The contribution of services to development can be enhanced by allowing access to international markets, which provide for more competition and relevant inputs and factors that support national services. This idea is supported by the higher

[3] These trends are based on national accounts statistics, which often exclude certain categorizations (such as mode 3 and mode 4 of the WTO modes of supply) and the added value of services incorporated into the exports of goods and of services activities within manufacturing firms. Therefore, such trends underestimate the contribution of services to trade.

productivity of service-exporting firms than of non-service-exporting firms in low-income countries.[4] Still, restrictiveness continues to be relevant in the services trade, especially in professional services and transport. While some countries are reducing restrictions, particularly in mode 3 of the WTO modes of supply, trade in services through the temporary movement of people remains with tight restrictions, such as quotas, labour market tests and durations of stay,[5] restrictive visa and work permit rules and no recognition of qualifications and licences. Considering that trade costs for services are high and declining more slowly than trade costs for goods, addressing such restrictions should be a critical component of trade policy.

12. International trade both in goods and services is increasingly facilitated by e-commerce channels. Although most e-commerce involves business-to-business transactions, the diffusion of information and communications technologies (ICTs) among consumers has increased the importance of business-to-consumer e-commerce transactions. UNCTAD valued the total business-to-consumer e-commerce at nearly $3 trillion.[6] Most of those transactions remain within the national economy. Cross-border business-to-consumer e-commerce is still relatively low. UNCTAD estimates that cross-border business-to-consumer e-commerce was worth about $189 billion in 2015, which corresponded to 7 per cent of total business-to-consumer e-commerce. China, the United States and the European Union are the leaders in cross-border business-to-consumer e-commerce, accounting for about $40 billion each. Cross-border business-to-consumer transactions are expected to grow substantially in the coming years, owing mainly to the further diffusion of ICTs. This is likely to have several implications for both trade and the development agenda, including, but not limited to, the development of infrastructure serving business-to-consumer transactions.

C. An elusive goal: the least developed countries export challenge

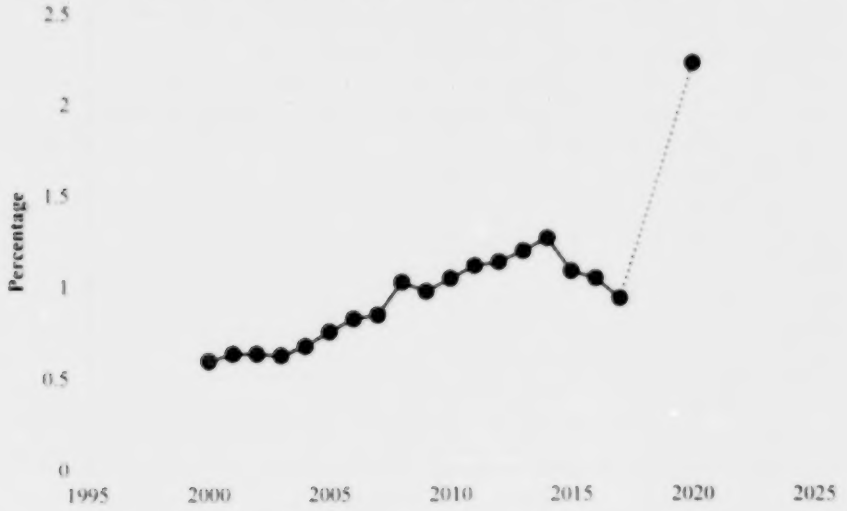
13. As a group, least developed countries moved further away from attaining target 17.11 in 2017. Since 2014, their share in global exports has declined, largely as a result of a drop in exports of natural resources. As of 2017, least developed countries represented 0.93 per cent of global exports. For least developed countries to achieve target 17.11, this share would need to increase by about 33 per cent per year (see figure VI). A coherent policy approach is needed to foster structural transformation and attain sustainable export growth.

[4] UNCTAD, *Services and Structural Transformation for Development* (New York and Geneva, 2017).

[5] International Monetary Fund, the World Bank and WTO, *Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment* (2017).

[6] *Information Economy Report 2017: Digitalization, Trade and Development* (United Nations publication, Sales No. E.17.II.D.8).

Figure VI
Share of least developed countries in global goods export values



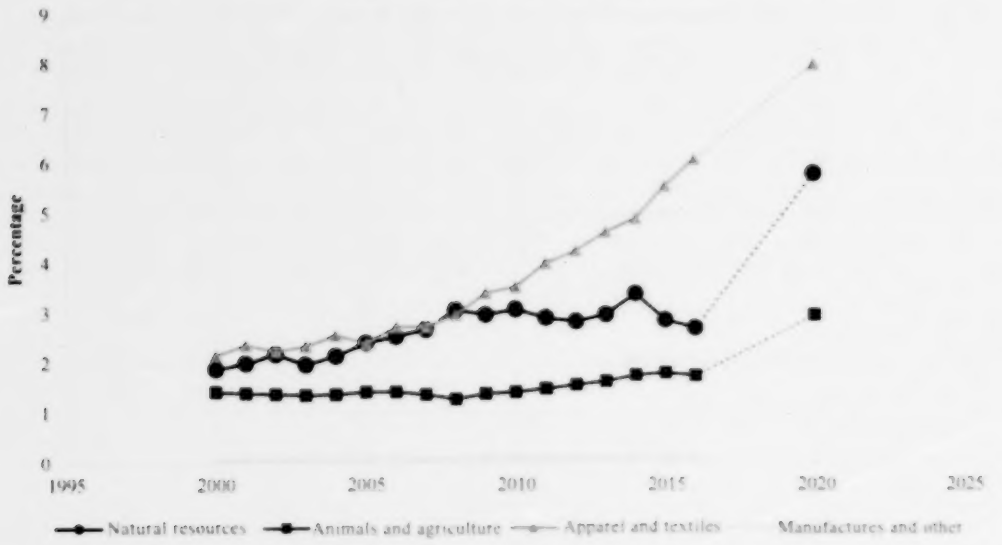
Source: UNCTADstat.

14. While that challenge is significant for least developed countries as a group, there is considerable heterogeneity among them. Seven least developed countries, situated in Africa and Asia, had already achieved target 17.11 as of 2017 or can be expected to achieve it by 2020 given their current export growth. Another 11 countries have achieved significant growth but stayed below the levels required to double their share by 2020. Of the remaining countries, 6 conserved their 2011 share in global exports and 20 had significant negative growth.[7]

15. An important constraint on exports of least developed countries has been the countries' reliance on natural resources. The export value of these goods has declined for all exporters in recent years owing to depressed external demand and falling prices. The exports of commodity-dependent least developed countries have been hit particularly hard by this evolution (see figure VII). Agricultural exports and the least developed countries' share in such exports have grown modestly. Textiles and apparel were key drivers of progress towards target 17.11: least developed countries increased not only the export value of textiles and apparel, but also their share in global exports, and are on good track to double that share by 2020.

[7] Data for three least developed countries (Democratic Republic of the Congo, South Sudan and Timor-Leste) were unavailable at the time of reporting.

Figure VII
Share of least developed countries in goods export values, by sector



Source: UNCTAD.

Note: Four major product sectors were chosen, given their importance for exports in least developed countries: natural resources include primary commodities except agricultural commodities (Standard International Trade Classification revision 3 (SITC 3) codes 27, 28, 3, 68, 667, 971); animals and agriculture include agricultural commodities and animals (SITC 3 codes 0, 1, 21, 22, 24, 26, 29, 4); apparel and textiles include leather goods, textiles, clothing and footwear (SITC 3 codes 61, 65, 83, 84, 85); and manufactures and other include all other goods.

16. Structural transformation and productive capacity are essential to reducing the vulnerability of commodity-dependent exporting least developed countries to external price and demand shocks. However, effective market access also continues to represent a barrier to increasing exports of least developed countries. Sustainable Development Goal target 17.12 calls for duty-free and quota-free market access for all least developed countries and transparent and simple rules of origin. In addition, in its research,[8, 9] UNCTAD has shown that issues such as non-tariff measures, logistics, connectivity and trade facilitation can represent more significant barriers to exports than tariffs. To ensure that least developed countries increase their export share until 2020 and beyond, coherence among different policy areas is needed and should be supported by strengthened global partnerships, which makes the multilateral trading system an essential public good.[10]

[8] Allessandro Nicita and Julia Seiermann, *G20 Policies and Export Performance of Least Developed Countries*, Policy Issues in International Trade and Commodities, Study Series No. 75 (Geneva, UNCTAD, 2016).

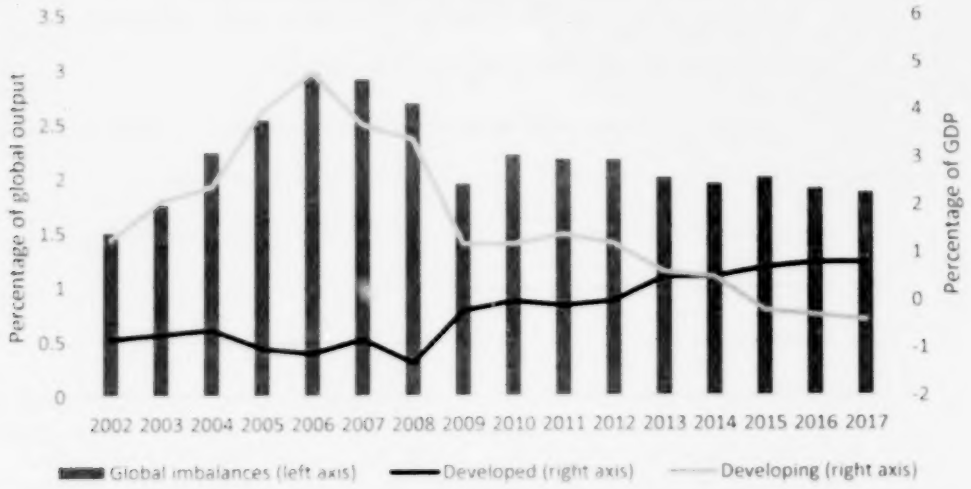
[9] UNCTAD, "Trade facilitation and development: driving trade competitiveness, border agency effectiveness and strengthened governance", Transport and Trade Facilitation Series No. 7 (2016).

[10] Mukhisa Kituyi, "How to ensure the continued participation of least developed countries in the multilateral trading system?", UNCTAD, 3 February 2016. Available at http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1196.

D. Trade imbalances

17. Currently, trade imbalances are an important topic in public debate and on the policymaking agenda. After peaking during the mid-2000s, global trade imbalances have stabilized at about 2 per cent of global output (see figure VIII). Not surprisingly, large economies are the ones contributing most to global imbalances. As of 2017, the current account surplus of Germany was about $300 billion and that of China about $180 billion. On the other hand, the current account deficit of the United States was about $450 billion in 2017. Whether imbalances are sustainable or not depends more on their size in relation to gross domestic product (GDP) than on their absolute value. In that regard, the current account positions of many economies have become closer to more sustainable levels. In particular, the current account surplus of China decreased from more than 8 per cent of its GDP in 2008 to about 2 per cent in 2017.

Figure VIII
Global trade imbalances



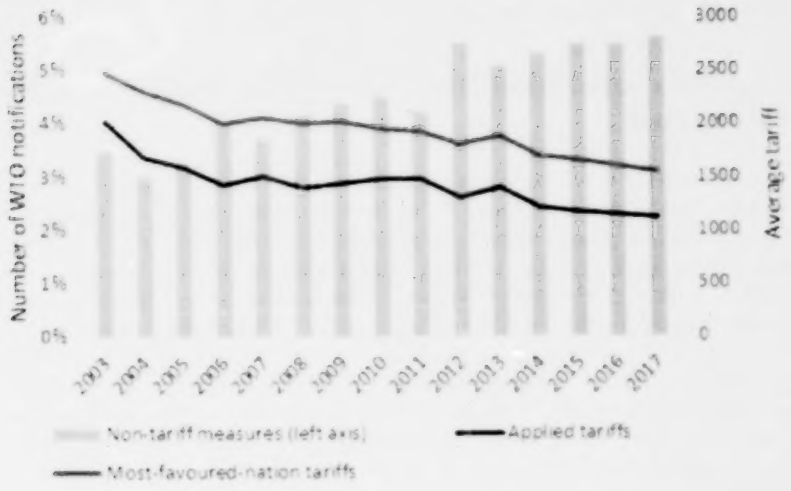
Source: UNCTAD secretariat, based on UNCTADstat and financial statistics from the International Monetary Fund.

Note: Global imbalances are calculated as the sum of the absolute values of current account balances across all countries divided by two.

E. Challenges to market access

18. In relation to trade policy, tariffs have remained stable at low levels during the past few years. However, the ongoing tension between leading trading nations could alter this trend. In 2017, the average most-favoured-nation tariff applied in international trade was about 3 per cent, while the effectively applied rate (considering preferential trade agreements) was about 2 per cent (see figure IX). Beyond averages, tariff protection currently remains a critical factor only in certain sectors and in a limited number of markets. Tariffs tend to be higher in sensitive sectors such as agriculture and apparel, textiles and leather products. Tariffs also remain substantial for most South-South trade (the effectively applied rate is almost 5 per cent), especially regarding South Asian and sub-Saharan African imports. These substantial tariff rates are due principally to the reliance of many countries in those regions on border taxes to finance government budgets.

Figure IX
Trade policy trends



Source: UNCTAD secretariat, based on data from the UNCTAD Trade Analysis and Information System and WTO Integrated Trade Intelligence Portal.

19. Tariffs represent the most obvious impediment to market access; however, despite the current climate, they are hardly ever the most important barrier to trade. Access to markets depends on and is administered by a large and increasing set of regulations and requirements with which traded goods need to comply: non-tariff measures. The number of notifications by WTO member States on various types of non-tariff measures has steadily remained above 2,500 since 2012.

20. In addition to non-tariff measures, many exports must increasingly meet voluntary or private sustainability standards for respecting social, environmental and ethical norms in order to reach the shelves of supermarket chains. Today, over 400 voluntary sustainability standards apply, most of which are set and implemented by non-governmental actors.

21. Meeting such measures and standards has important distortionary effects on international trade, often owing to compliance costs, which may depend on technical know-how, production facilities and infrastructure. These components are lacking in many developing countries and small enterprises, which particularly affects the ability of small producers to enter specialized markets for nature-based, green products.

F. International trade prospects for 2018

22. Most forecasts indicate that global economic growth will continue to be sound in 2018 (about 4 per cent).[11] Trade growth should therefore follow suit, as the historic correlation between trade and economic growth is expected to remain despite a recent uncoupling. Barring any major global economic shocks, cyclical factors — such as trends in consumption expenditures and the commodity cycle — should continue contributing to trade growth in the short term.

[11] See, for example, https://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018.

23. However, the rapid increase in trade policy uncertainty observed recently, at both the national and multilateral levels, may adversely affect international trade and investment, as commitment to a set of rules that provide businesses with a predictable economic environment is essential for international trade.

II. Multilateral cooperation and international trade — a system to be protected

24. The recent waning of political and popular support for trade integration among some nations has affected the outlook for multilateral trade cooperation. Greater trade integration, including greater mobility of people, is increasingly seen by some parties as causing inequalities, social tensions and disintegration. The extent of trade discontent is such that the very existence of the trading system, and the case for multilateral cooperation on trade, are being questioned, which has led to significant course correction, setbacks and the renegotiation of existing and proposed trading arrangements. These have included the ongoing Brexit negotiations, the withdrawal of the United States from the Trans-Pacific Partnership, setbacks in the Transatlantic Trade and Investment Partnership between the United States of America and the European Union, and negotiations on the North American Free Trade Agreement and other free trade agreements, such as that between the Republic of Korea and the United States.

25. A series of unilateral restrictive trade measures announced and implemented by the United States in early 2018 and retaliatory measures announced by affected countries have further jeopardized the prospects for multilateral trade cooperation. At the time of reporting, there was growing concern that these measures could lead to the further imposition of unilateral measures for contestable policy reasons.

26. In its research, UNCTAD indicates that, in the event of further escalation of such tensions, average tariffs on international trade could increase tenfold, from the current level of about 3 per cent to more than 30 per cent. Moreover, policy uncertainty has already had negative repercussions, for example, on investment flows. In its *World Investment Report 2018*, UNCTAD indicates that global foreign direct investment flows fell by 23 per cent in 2017. An escalation and broadening of trade tensions could negatively affect investment in global value chains and thus reduce foreign direct investment, which has been one of the most important and stable sources of financing for developing countries.

27. Multilateral cooperation is the best safeguard against escalating trade tensions. The main concern is that, without the support of the largest economies, the rules-based system of international trade could quickly lose its authority. A shift towards a power-based trading system would not be in the interest of most countries, especially low-income countries.

28. Possible spirals of restrictive and retaliatory trade measures could directly challenge the case for multilateral cooperation and the integrity of the rules-based multilateral trading system. Even if addressed by the Dispute Settlement Mechanism of WTO, the adjudication of such systemically complex and large-scale cases would pose a significant challenge. The Mechanism has been under pressure owing to the blockage of the appointment of new Appellate Body judges (three out of seven seats remain vacant). Paralysis of the Mechanism could significantly affect the credibility and effectiveness of WTO, as the Appellate Body has served as the guarantor of effective enforcement of WTO rules and disciplines. Any waning of the credibility of the multilateral trading system would hurt many developing countries, exposing them to an increasingly uncertain trading environment in which they may not be able to

advance their development agenda, voice their concerns or have the capacity to effectively retaliate against any protective measures of larger trading nations.

29. In addition, an important negative aspect of the current trade frictions is that they are already diverting attention and multilateral efforts away from initiatives in which multilateral cooperation is most needed, such as managing financial integration, addressing corporate taxation and supporting environmental sustainability. Ultimately, global problems cannot be corrected through unilateral actions but require a concerted effort with attention given to achieving progress on meeting the Sustainable Development Goals.

A. Policy outcomes of the eleventh Ministerial Conference of the World Trade Organization and overall negotiations currently on hold at WTO

30. The centrality of the multilateral trading system is increasingly affected by insufficient progress in multilateral trade negotiations under the Doha Development Round. Despite intensive discussions prior to and during the eleventh Ministerial Conference of the World Trade Organization, held in December 2017, the Conference ended without an overarching ministerial declaration. A set of ministerial decisions was adopted on some issues, outlining a progression framework for the post-Conference period.[12]

31. Notably, a commitment was made to continue to engage constructively in the fisheries subsidies negotiations with a view to adopting, by the ministerial conference in 2019, an agreement on comprehensive and effective disciplines.[13] This objective creates a deadline for finding a sound solution to harmful economic incentives that contribute to the depletion of fish stocks and hinder the livelihoods of coastal populations. These efforts are expected to contribute to the achievement of Sustainable Development Goal target 14.6, with its 2020 deadline for eliminating subsidies on illegal, unreported and unregulated fishing and certain forms of fisheries subsidies that contribute to overcapacity and overfishing. Nonetheless, given that this issue was seen as the most promising of all possible deliverables of the Conference, such an outcome was disappointing to many proponents.

32. Against this backdrop of no agreed-upon substantive outcomes, it is significant that initiatives were taken by the proponents of three new issues: (a) electronic commerce; (b) investment facilitation; and (c) enhancing the participation of micro-, small and medium-sized enterprises in international trade. Initiatives were also taken on national regulations relating to services.

33. Those initiatives were hailed by some as representing new ways of doing business at WTO, namely, by allowing willing countries to move forward on specific, contemporary issues. However, others expressed concern that processes might run counter to some core WTO principles — multilateralism and consensus-based decision-making — and that there are no specific mandates on these topics under the Doha Development Round.

34. The Conference participants failed to reach consensus on the general case of the multilateral trading system and the notion of a development agenda underpinning the

[12] These included ministerial decisions on fisheries subsidies (WT/MIN(17)/64), a work programme on electronic commerce (WT/MIN(17)/65), non-violation and situation complaints under the Agreement on Trade-Related Aspects of Intellectual Property Rights (WT/MIN(17)/66) and a work programme on small economies (WT/MIN(17)/63), and the creation of a working party on the accession for South Sudan.

[13] See https://www.wto.org/english/thewto_e/minist_e/mc11_e/documents_e.htm.

current Doha Development Round negotiations. This persistent divide in securing cooperative actions to uphold and strengthen the multilateral trading system has become a source of discontent among developing countries.

35. Ultimately, the Conference may be seen as a missed opportunity to make important progress towards the implementation of Sustainable Development Goal 17, to revitalize the Global Partnership for Sustainable Development, especially target 17.10, to promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under WTO.

B. Areas of positive development

36. Without the credible engagement of the world's largest trading nation in multilateral cooperative processes, no negotiations on the Doha Development Round are conceivable. Hence, leadership and participation involving all WTO members remain key to the future direction of the multilateral trading system. Discussions could again be launched on ways to strengthen the multilateral trading system through normative, practical or institutional reforms to its modus operandi. In this regard, it may be recalled that WTO members previously gathered to address issues such as the consensus-based decision-making process; the single undertaking principle; efficiency, inclusiveness and transparency in negotiation processes; the most-favoured-nation principle; special and differential treatment; and the development dimension.

37. In a report,[14] WTO indicates that for the period between mid-October 2016 and mid-October 2017, WTO members applied 108 new trade-restrictive measures, including new or increased tariffs, but also implemented 128 measures aimed at facilitating trade. It is significant that the estimated trade coverage of import-facilitating measures ($169 billion) is more than two times larger than that of import-restricting measures ($79 billion). While such a policy landscape could change if more recent trade restrictive measures were considered, it remains that WTO members continue to abide by WTO disciplines when taking trade policy actions.

38. The heightened uncertainty surrounding the trading system points to the importance of making the case for the multilateral trading system — a system which continues to enjoy legitimacy — as the cornerstone of global trade governance and its contribution to the Sustainable Development Goals. United Nations Member States have repeatedly pronounced their commitment to promoting a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system, consistent with Sustainable Development Goal target 17.10.[15]

39. Multilateral rules and disciplines are the best guarantee against protectionism and are fundamental to the transparency, predictability and stability of international trade. Despite recurrent setbacks and escalating trade tensions, global support for the general case for trade integration with adequate complementary policies and multilateral trade cooperation remains steadfast and widespread.

[14] WTO, *Overview of Developments in the International Trading Environment: Annual Report by the Director-General* (WT/TPR/OV/20), 16 November 2017.

[15] See, for example, General Assembly resolutions 70/187, 71/214 and 72/202, on international trade and development.

Despite the challenges to multilateral cooperation, many countries seek more, not less, cooperation

(a) Regionalism

40. The general case for greater trade integration continues to frame countries' development strategies, as evidenced by the fact that countries standing at the margin of the system continue to seek WTO membership to lock in trade policy reforms and catalyse economic transformation, growth and development. This process contributes to the universality of membership consistent with Sustainable Development Goal target 17.10. Recently, the Comoros and the Sudan have sought to accelerate their accession processes.

41. Furthermore, the continued engagement of many countries in regional trade agreements indicates their desire to capitalize on trade integration. This may enhance countries' readiness for further trade policy reform and for engagement in future multilateral trade cooperation and negotiations. Indeed, many countries have sought to conclude a new generation of regional trade agreements in order to achieve deep integration of a range of behind-the-border measures, in part as a response to a rapid expansion of trade within global value chains.

42. In March 2018, 11 of the original members of the Trans-Pacific Partnership signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Bilateral regional trade agreements have also taken shape, such as between Canada and the European Union and between Japan and the European Union. These agreements are of substantial systemic significance in that they seek to institute high-standard trade disciplines promoting liberalization of trade in goods and services and liberalization and facilitation of investment, and to create a new generation of rules adapted for the twenty-first century in a wide range of areas, such as intellectual property, electronic commerce, State-owned enterprises and the environment.

(b) African Continental Free Trade Area

43. On 21 March 2018 in Kigali, the Agreement establishing the African Continental Free Trade Area was signed by 44 of the 55 States members of the African Union. At a time when the multilateral trading system and the benefits of international trade are being questioned by some, this was a bold step in favour of trade and economic integration for the African continent.

44. The Agreement will ultimately create a wider market of 55 African States comprising more than 1.2 billion people and $2.1 trillion combined national income, consolidating the existing regional economic communities into a single continental block. The Agreement is expected to boost intra-African trade (currently about 18 per cent of its total trade), create economies of scale for investment and regional value chains and foster industrialization processes driven by internal demand. It is expected that 90 per cent of all tariff lines, excluding sensitive and excluded products, will be subject to progressive tariff cuts. In the long run, on the basis of research by UNCTAD, it is estimated that intra-African trade will increase by 33 per cent and that total employment will increase by 1.2 per cent and GDP by 1 to 3 per cent on the continent.

45. However, to fully realize the Agreement's benefits, detailed conditions for market access need to be established without delay, including on national schedules of tariff concessions and on rules of origin. Sensitive and exempted product lists should also be considered in relation to the possible negative repercussions of such

lists on regional integration.[16] States parties to the Agreement also need to mobilize resources to bolster the infrastructure linkages between them, especially in least developed, landlocked developing and small island developing economies, to facilitate the smooth flow of goods across Africa on a more inclusive basis. Finally, cooperation among African countries should be enhanced on rules of origin, customs, trade facilitation, non-tariff barriers,[17] technical barriers to trade, sanitary and phytosanitary measures, transit and trade remedies. The agreement on trade in services, which will progressively lift restrictions on the various means of supplying services, needs to be finalized. The continent's gains will be much higher once the agreement is extended to cover those areas of cooperation.

(c) Fisheries subsidies

46. While in-depth negotiations to clarify and improve rules on fishery subsidies have been conducted for more than a decade and a half,[18] the urgent need for a specific outcome, which emerged from the eleventh Ministerial Conference of WTO, has led the Chair of the Negotiating Group on Rules to redouble efforts through a common and non-attributed draft text and by holding special thematic negotiating sessions throughout 2018 to build a solid base for the establishment of multilateral comprehensive and effective disciplines by 2019, just before the deadline set in Sustainable Development Goal target 14.6. As that target can be considered an "early harvest" of the 2030 Agenda for Sustainable Development, failure to implement it by 2020 is likely to have systemic implications for the entire Agenda.

(d) Digitalization and trade

47. The world is on the cusp of a new digital era, bearing transformational implications for all. In its publication *Information Economy Report 2017: Digitalization, Trade and Development*, UNCTAD shows that the growing digital economy will challenge Governments, businesses and people to adapt. As both enterprises and consumers increasingly go online to buy goods and services, sellers without an online presence will become increasingly invisible in the market. Trade is profoundly affected by digitalization, including through the increased tradability of services, fragmentation of production and trade into tasks, automation, three-dimensional printing and reliance on digital platforms. Currently, most of the $26 trillion in global e-commerce sales take place in developed economies, with 2 per cent of people in least developed countries shopping online. To ensure that current digital divides do not result in widening income inequalities, a concerted global effort is needed to support developing countries with digital transformations.

48. The net outcome of countries taking advantage of digitalization will depend on the readiness to adapt to these transformations. In developing nations especially, most consumers and micro-, small and medium-sized enterprises have yet to leverage the potential that e-commerce has to offer. Moreover, consistency with international commitments such as the 2030 Agenda requires sustained international efforts to ensure that no one is left behind in the digital economy.[19] The multilateral system will play a fundamental role in this process, particularly the multilateral discussions

[16] See David Vanzetti, Ralf Peters and Christian Knebel, "Non-tariff measures: lifting CFTA and ACP trade to the next level", UNCTAD Research Paper No. 14 (February 2018).

[17] Ibid. The gains from tariff reductions could be dwarfed by gains from eliminating non-tariff barriers and increasing regulatory collaboration.

[18] Including the WTO Doha Development Round in 2001 and the WTO Hong Kong Ministerial Declaration in 2005.

[19] An UNCTAD online platform, etradeforall.org, is specifically designed to support developing and least developed countries in finding information and resources to foster e-commerce for sustainable development.

revolving around the balance between having rules that support the potential of e-commerce and having the policy space to address legitimate regulatory objectives, such as data and privacy protection and cybersecurity.

(e) At the multilateral level, some issues move forward

(i) Gender declaration

49. On the margins of the eleventh Ministerial Conference of WTO, 121 members and observers of WTO agreed to support the Joint Declaration on Trade and Women's Economic Empowerment, which is aimed at increasing women's participation in trade by removing barriers and fostering women's economic empowerment. In the Declaration, it is acknowledged that trade policy can contribute to gender equality and women's economic empowerment and it is recognized that, in turn, gender equality and women's economic empowerment are key elements for the achievement of sustainable development.

50. While not a binding legal instrument, the Declaration is a significant step forward at the multilateral level towards mainstreaming gender into trade policy, demonstrating that the trade community has gone beyond treating trade as gender-neutral. It has the potential to bring the trade and human rights communities and legal frameworks closer together. Signatories committed to reporting on progress towards the implementation of the Declaration at the twelfth ministerial conference, in 2019.

(ii) Services

51. The least developed countries services waiver allows WTO members to grant preferences, including preferential market access, to services and service suppliers of least developed countries. However, more than six years after the adoption of the waiver, analysis carried out by UNCTAD revealed that at least half of the preferences — those that are either equal to or less than those offered under the Doha Development Round — do not offer actual preferences or additional market openings for services and service providers of least developed countries. Furthermore, most notified preferences cover market access, with only 15 per cent addressing the extension of national treatments to the services and service suppliers of least developed countries, while many focus on a limited category of services. A small proportion of preferences relate to tourism, construction, health and education services, areas in which many least developed countries have export potential. As a result, the WTO least developed countries group continues to call for enhancing the operationalization of the waiver.

52. WTO members should not stop at the submission of notifications, but should, in addition, uphold the commitments made at various ministerial conferences and the development focus of the General Agreement on Trade in Services. This would require actions to operationalize the services waiver, including measures to address supply capacity issues as confirmed in the Declaration made by ministers of least developed countries at the eleventh Ministerial Conference, in which they stated that the implementation status of all decisions taken in favour of least developed countries had been reviewed, including the services waiver, and called upon members to fully implement the spirit and letter of those decisions. Such a commitment by members must endure after the ministerial conferences are over and must go beyond best-endeavour language.

(iii) Progress in the Agreement on Trade Facilitation

53. Although the negotiations on the Agreement on Trade Facilitation took over a decade to conclude, the inclusive and in-depth preparatory work conducted through the multilateral trading system paid off. For developing countries and least developed

countries, the support provided by international organizations during the negotiations proved significant in providing a robust and outcome-oriented direction for the negotiations. Moreover, the novel provisions contained in the Agreement regarding special and differential treatment for developing and least developed countries were fundamental for concluding the negotiations with a positive outcome.

54. However, the ability of the Agreement to facilitate progress in the simplification of international trade is precarious. For developing and least developed countries, much assistance, in both technical and financial terms, is needed to implement many obligations under the Agreement. Donors, international organizations and the private sector have all come forward with funding and capacity-building and technical assistance programmes. On the basis of WTO notifications on the status and sequence of the implementation of such obligations, progress is being achieved. This momentum of implementation and assistance needs to be maintained in line with the implementation sequences notified by developing and least developed countries, which may be more than 10 years. It is significant that the multilateral negotiations on the Agreement within the framework of WTO have acted as an inspiration for the conclusion of regional and subregional trade facilitation solutions, such as the African Continental Free Trade Area, and for the implementation of such solutions in organizations such as the East African Community.

55. The sustained and consolidated efforts by the United Nations [20] and other development partners have been one of the cornerstones of the adoption of the Agreement and will assuredly lead to the further simplification of international trade procedures, thereby contributing to the socioeconomic development of countries and the achievement of the Sustainable Development Goals.

III. What multilateral cooperation initiatives should focus on to achieve the specific Sustainable Development Goals

56. The 2030 Agenda underscored the role of trade as a powerful enabler of transformative shifts towards the achievement of sustainable development.

57. International trade is defined as a means of implementing the Sustainable Development Goals (as set forth in Goal 17), and meaningful progress in the Doha Development Round is considered essential for revitalizing the Global Partnership for Sustainable Development, as described in target 17.10. Revitalizing the Partnership could also have an impact on progress made in achieving other substantive goals linked with a successful conclusion to the Doha Development Round, including: Sustainable Development Goal target 17.12, to realize timely implementation of duty-free and quota-free market access for least developed countries, including by ensuring that rules of origin are transparent and simple; target 2.b, to correct distortions in world agricultural markets, including through the parallel elimination of export subsidies; target 3.b, to provide access to essential medicines; target 8.a, to increase Aid for Trade support; target 10.a, to implement the principle of special and differential treatment; and target 14.6, to prohibit, by 2020, certain forms of fisheries subsidies which contribute to overfishing.

[20] UNCTAD actively supported developing and least developed countries throughout the negotiation phase of the Agreement and is engaged in providing support for its implementation. Through its Automated System for Customs Data programme, UNCTAD continues to implement automated solutions for customs clearance in more than 90 countries. Through the e-registration tool, UNCTAD assists countries in meeting their transparency obligations under the Agreement by developing national and regional trade information portals.

58. Under the right conditions, trade provides for access to foreign products, services and markets, enables economies of scale and generates employment. Trade enables better use of productive resources and may catalyse structural transformation with higher technological capabilities and economic sophistication, which could trigger longer-term economic development. Harnessing the benefits of trade for development that are economically, socially and environmentally inclusive and sustainable points to the need for policies to set the right conditions. Without policies for sharing prosperity, trade may increase inequalities, heighten social tensions and lead to environmental degradation.

59. Global collective action through multilateral trade cooperation is essential for tackling cross-border challenges to development. Revitalizing a global partnership is critical for the implementation of the Sustainable Development Goals, and the multilateral trading system continues to be the cornerstone of such a partnership and should be regarded as a global public good.

A. Agriculture (Sustainable Development Goal 2)

60. The national support pillar remains fundamental for the multilateral trading system. Without reforms, agricultural markets remain distorted, largely seen as unfair to developing countries. Major economies have shifted most of their support to non-trade-distorting "green box" measures, which account for the bulk of national support (for example, for dairy, poultry, cereals, cotton and soybeans). While this type of support is intended to be non- or minimally trade-distorting, concerns exist that the overall quantity of support may distort trade.

61. Most developing countries have no commitments to reduce trade-distorting support, called "amber box" support, and are entitled only to de minimis support and support as defined under article 6.2 of the Agreement on Agriculture (for small-scale or resource-poor farmers). Giving greater scrutiny to, and possibly placing a cap on, the amount of overall trade-distorting support are among the key outstanding issues to be addressed through WTO negotiations.

62. National support remains the key issue for cotton as well. The four proponents[21] of the cotton initiative, the Cotton Road Map, seek to achieve ambitious, expeditious and specific cuts in national support, including through the elimination of cotton-specific aggregate measures of support, deeper cuts on de minimis entitlements and greater transparency on "green box" measures.

B. Gender equality (Sustainable Development Goal 5)

63. Trade is fundamental in providing employment opportunities for women. Many developing countries have relied on export-led growth strategies, which have created many jobs from which women have benefited, especially in labour-intensive manufacturing sectors. The services sector is increasingly providing employment opportunities for women, and in many developing and least developed countries women's employment is shifting from agriculture to services.

64. Tensions in trade relationships, unilateral actions taken outside the WTO framework and the perception that trade tensions are escalating may shrink markets and have an impact on job creation. This affects not only the quantity of jobs that trade creates, but also their quality. Gender inequality in wages and work conditions is used as a competitiveness strategy — particularly within global value chains. In a

[21] Benin, Burkina Faso, Chad and Mali.

recent report,[22] UNCTAD demonstrated that both regional and overall world market integration had led to an increase in women's employment in the traditional blue-collar category but not in the white-collar tasks with higher levels of responsibilities and higher salaries.

65. Gender-sensitive implementation of all Sustainable Development Goals is necessary to fully achieve sustainable and inclusive economic development. Gender-responsive trade policies are premised on sound statistics. However, trade and business statistics have not been designed to capture gender issues, and statistics on intra-household decision-making are rare. Women are frequently employed in difficult-to-measure activities, such as informal work, unpaid work and household care activities. Hence, there is a need for multilateral cooperation initiatives aimed at: improving the availability of sex-disaggregated data; assessing the data necessary for gender-responsive trade policymaking; discussing how to improve data infrastructure to facilitate data linking (for example, linking statistics on enterprises with product data and household data); and developing new approaches for collecting data necessary to inform gender-responsive trade policy.

66. In addition, there is a need for broader use of gender impact assessments of trade policies before, during and after their implementation. For example, an ex ante gender impact assessment of a trade agreement under negotiation makes it possible to predict the agreement's likely impact on women and, accordingly, adjust its terms and/or introduce compensatory measures if the likely impact is negative or complementary measures to increase the expected positive impacts.[23] Multilateral cooperation initiatives need to work towards supporting the further development of such gender assessment tools and their broad usage.

C. Reduced inequality (Sustainable Development Goal 10)

67. In a report,[24] UNCTAD showed that trade liberalization does not necessarily lower unemployment if the labour market adjusts only sluggishly at the sectoral level. Accordingly, for any international cooperative policy strategy to be successful, labour market outcomes should be treated as a major concern not only at the national level, but also at the international level. For example, trade negotiations should be directed not only by trade interests and relative competitiveness, but also by employment and wage considerations. Furthermore, concessions and adjustment support should be considered not only in terms of market access conditions, but also in terms of their effects on employment and wages. In the same spirit, Aid for Trade programmes should be assessed not only according to their potential effects on trade, but also for their potential effects on net job creation and the subsequent changes in relative earnings. These considerations would go far in enhancing the contribution of trade to the fulfilment of Sustainable Development Goal 10.

D. Fishery subsidies (Sustainable Development Goal 14)

68. The lack of delivery on a multilateral solution to fish subsidies will maintain the existence of harmful incentives to harvest already depleted fish stocks. Political will in addressing more complex negotiating gaps and active and constructive engagement by all Members will be key in delivering on Sustainable Development Goal

[22] UNCTAD, *East African Community Regional Integration: Trade and Gender Implications* (2018).

[23] In that regard, UNCTAD has developed the trade and gender toolbox to conduct ex ante gender impact assessments of trade reforms.

[24] UNCTAD, *Market Access, Trade and Sustainable Development: The Labour Market Channel*, Developing Countries in International Trade (Geneva, 2018) (forthcoming).

target 14.6. Other multilateral and regional trade approaches can and should contribute to more sustainable fisheries as well. Aligning strategies that take into account the stated objectives of the Sustainable Development Goals — with a view to promoting policy coherence — should support this process. UNCTAD, the Food and Agriculture Organization of the United Nations and the United Nations Environment Programme will continue to support countries as required towards building consensus on fisheries subsidies by 2019.

E. Development issues

69. Special and differential treatment remains a long-standing and central issue for the development dimension of the multilateral trading system. While there is no easy solution, developing countries are seeking to prioritize those provisions that could facilitate policies aimed at industrialization, such as local content requirements under the Agreement on Trade-Related Investment Measures and the provisions of the Agreement on Subsidies and Countervailing Measures. On the other hand, the effective implementation of past decisions on special and differential treatment remains a key concern; for example, the full implementation of article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights, which provides incentives for firms to transfer technology to least developed countries, has yet to be secured.

70. In this context, it is important to ensure effective operationalization of the least developed countries services waiver through the provision of commercially meaningful preferential treatment of services and services suppliers of least developed countries. Building the services capacity of least developed countries and facilitating the recognition of qualifications are also important. While 24 notifications have been made to date regarding preferential treatment for least developed countries under the services waiver, no least developed countries have resorted to such measures.

71. Increasingly, countries are seeking to capitalize on the services economy and trade to induce structural transformation in order to attain sustainable development. This is even more the case as the achievement of many goals and targets under the Sustainable Development Goals requires universal access to basic, essential services, including health, education, financial, water, environmental, energy, transport and telecommunications and ICT services.

IV. Conclusions

72. Trade is an important source of prosperity, ideas and values for sustainable development. However, it is widely recognized that the benefits of trade integration have not been evenly distributed across countries and within societies and have often been concentrated among a few actors, while any adverse effect on inclusiveness and the social and environmental dimensions have essentially been seen as externalities. These uneven outcomes may lie at the root of the recent scepticism on the benefits of globalization and trade and the resurgence of nationalist and isolationist sentiments and policies.

73. As the world seeks to harness globalization in realizing the social, economic and environmental goals embodied in the Sustainable Development Goals, it is imperative that trade play its full part, which means both sustaining growth and ensuring consistency with sustainable development. Without policies for sharing prosperity, including through trade and labour adjustment mechanisms, trade may increase inequalities, heighten social tensions and lead to environmental degradation.

Proactive and coherent policy mixes, bringing together trade, development and industrial, macroeconomic, social and other policy areas, need to be mainstreamed into national policy agendas. In that process, it is important to recognize that trade is changing shape in response to technological advances, expanded value chains, new business models and policy innovation.

74. International markets need to be open, but also need to be managed to ensure that trade promotes sustainable development. A global partnership is an essential means of implementing the Sustainable Development Goals, and a universal, rules-based, open, non-discriminatory and equitable multilateral trading system will be a central component of such a partnership, as provided under Sustainable Development Goal target 17.10. In a context of rising trade tensions, setbacks in multilateral trade negotiations and burgeoning regional and plurilateral processes, revitalizing the multilateral trading system as a global public good with renewed momentum and relevance is fundamental. This can start with the integration of sustainable development dimensions into trade policy, negotiations and agreements.

75. The United Nations system will remain a major stakeholder in the multilateral trading system in view of the global development imperative of revitalizing the Global Partnership for Sustainable Development. It should continue to provide unambiguous support for multilateral trade cooperation and its development dimension to realize a global enabling environment for sustainable development. It represents the best guarantee against protectionism and economic nationalism, and could best underpin the transparency, predictability and stability of international trade. Such a system has worked particularly for the benefit of weaker and more vulnerable economies dependent on trade to trigger economic transformation and development. The United Nations system could usefully support Members' efforts in charting the way forward to overcome trade scepticism and strengthen trade multilateralism in support of sustainable development.